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City and County of San Francisco

Office of the Controller - City Services Auditor

Audits Division

Audit Report

PORT COMMISSION:

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER
AUDITS DIVISION

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

September 27, 2004 Audit Number 03053

San Francisco Port Commission
Pier 1 Building
Port of San Francisco
San Francisco, CA 94111

President and Members:

The Office of the Controller presents its report concerning the audit of Fog City Diner. Fog City Diner operates a restaurant under a sublease with Blue Jeans Equities West, which holds a lease with the Port Commission of the City and County of San Francisco.

Reporting Period: January 1, 2001, through December 31, 2003

Rent Paid: $714,181

Results:

Fog City Diner correctly reported gross revenues of $10,580,477 and correctly paid its rent to the Port.

Respectfully submitted,

Noriaki Hirasuna
Director

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INTRODUCTION

BACKGROUND

Blue Jeans Equities West (Blue Jeans) has a 66-year lease with the San Francisco Port Commission (Port), expiring in 2046, to operate a restaurant and a park on Port property. Fog City Diner has operated a restaurant on this property since January 1985 under a sublease from Blue Jeans. Fog City Diner pays to Blue Jeans and Blue Jeans pays to the Port the rent owed to the Port. For the period reviewed, the amended lease required Blue Jeans to pay the Port the greater of a minimum monthly rent, increased annually by five percent, or a specified percentage of monthly gross receipts. In March 1990, the Port specified a percentage rent of 6.75 percent of all sales. During the audit period, the monthly minimum rent ranged from $4,612 to $5,085.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine if Fog City Diner complied with the reporting and payment provisions of its amended sublease with Blue Jeans and Blue Jeans' amended lease with the Port. Our review covered the period from January 1, 2001, through December 31, 2003.

To conduct the audit, we reviewed the applicable terms of the sublease and lease and the amendments to those documents. We reviewed the adequacy of Fog City Diner's procedures for recording, summarizing, and reporting its gross revenues to Blue Jeans, which then reports the same revenues to the Port. To determine whether Fog City Diner accurately reported its gross revenues, we compared its reported gross receipts to the gross receipts Fog City Diner reported in its monthly summary records for all months of the audit period. On a sample basis, we examined Fog City Diner's monthly sales summaries, daily sales reports, and bank deposit records. We also compared for selected quarters the gross receipts Fog City Diner reported to Blue Jeans with the gross receipts Fog City Diner reported to the California Board of Equalization. Finally we determined whether Blue Jeans has any outstanding payments due to the Port for the audit period.

AUDIT RESULTS

FOG CITY DINER CORRECTLY REPORTED ITS REVENUE AND PAID ITS RENT

From January 1, 2001, through December 31, 2003, Fog City Diner correctly reported $10,580,477 in gross revenues and correctly paid rent of $714,181. The table below shows the reported gross revenues and rent paid.

TABLE

Gross Revenues and Rent Paid
January 1, 2001, Through December 31, 2003

	Gross Revenues	Rent Paid
January 1, 2001, through December 31, 2001	$3,682,895	$248,595
January 1, 2002, through December 31, 2002	3,453,932	233,140
January 1, 2003, through December 31, 2003	3,443,650	232,446
Total	$10,580,477	$714,181

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Elisa Sullivan, Audit Manager
Lorita Chung

cc: Mayor
Board of Supervisors
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